

**IN THE INCOME TAX APPELLATE TRIBUNAL  
'SMC' BENCH: BANGALORE**

**BEFORE SHRI PRASHANT MAHARISHI, VICE – PRESIDENT**

<b>ITA No. 1873/Bang/2025</b>
<b>Assessment Year : 2017-18</b>

Hamdard Co-operative Society Limited, K R Puram, Ameer Ahmed Circle, Shimoga, Karnataka 577201  <b>PAN – AAAAH1442G</b>	<b>Vs.</b>	ADDL/JCIT (A)-2, Commissioner of Income Tax, Appeal, Surat Income Tax Officer, Ward 2, Shimoga
<b>APPELLANT</b>		<b>RESPONDENT</b>

Assessee by	:	Shri. G S Bhatt, CA
Revenue by	:	Shri. Ganesh R Ghale, Standing Counsel for the Dept

Date of Hearing	:	04-03-2026
Date of Pronouncement	:	20-05-2026

**ORDER**

**PER PRASHANT MAHARISHI, VICE – PRESIDENT**

1. ITA No. 1873/Bang/2025 is filed by Hamdard Co-operative Society Limited against the appellate order passed by the Joint Commissioner of Income Tax Appeal - 2 Surat (the learned CIT-A) dated 30<sup>th</sup> June 2025 wherein the appeal filed by the assessee against the intimation order passed under Section 143(1) of the Income Tax Act, 1961 (the Act) passed by the

Income Tax Office Ward – 2, Shimoga (the learned Assessing Officer) on 29<sup>th</sup> December 2019 was dismissed. Therefore, assessee is in appeal before us.

2. The only issue in appeal before us is deduction under Section 80P(2)(a)(i) and 80P(2)(d) denied to the assessee.
3. Briefly stated the facts show that assessee is a Credit Co-operative Society filed its return of income on 30<sup>th</sup> October 2017 declaring income of Rs. 1,78,130/- and claimed deduction under Section 80P of Rs. 15,73,747/-. The return of income was picked up for scrutiny for verification of the deduction. The verification showed that assessee has filed return of income wherein the deduction under Section 80P was claimed of Rs. 15,73,747/- and the assessee has also earned interest income of Rs. 5,78,187/-. This interest income is also considered as income attributable to the business of the assessee of credit facilities to members. The main object of society was providing various credit facilities to its member.
4. The learned Assessing Officer based on the decision of the Hon'ble Supreme Court in case of Totgars Co-operative Society Ltd. vs. Income Tax Officer dated 08.02.2010 Totgars, Co-operative Sale Society Ltd. vs. Income-tax Officer, Karnataka [2010] 188 Taxman 282 (SC)/[2010] 322 ITR 283 (SC)/[2010] 229 CTR 209 (SC)[08-02-2010] and later decision of Hon'ble Karnataka High Court dated 05.01.2017 Principal Commissioner

of Income-tax, Hubballi vs. Totagars Co-operative Sale Society [2017] 83 taxmann.com 140 (Karnataka)/[2017] 395 ITR 611 (Karnataka)/[2017] 297 CTR 158 (Karnataka)[16-06-2017] held that income of Rs. 5,78,187/-interest income earned by the assessee is chargeable to tax under the head income from other sources and therefore the deduction claimed by the assessee on the same deserves to be withdrawn.

5. The AO further noted that assessee has 2,520members and 330 nominal members. The AO on the basis of the fact that the income from nominal members disentitles the assessee for deduction under Section 80P of the Act. Accordingly, the deduction under Section 80P was also disallowed. Accordingly, the assessment order was passed on 29<sup>th</sup> December 2019. The assessee approached the learned CIT-Appeal wherein the assessee was denied deduction under Section 80P(2)(a)(i) as well as under Section 80P(2)(d).
6. Aggrieved with the same the assessee is in appeal before us.
7. We have heard Shri. G S Bhatt, CA, the Authorized Representative and Shri. Ganesh R Ghale, Standing Counsel for the Revenue. We have also perused the orders of the learned Lower Authoritiesand also considered the various judicial precedents relied in the orders as well as cited before us.
8. We find that assessee is a Credit Co-operative Society engaged in accepting deposits and providing credit facilities to its

member. The assessee has claimed the deduction of the interest income also claiming under Section 80P(2)(a)(i) of the Act. The assessee has earned interest income of Rs. 5,78,187/- out of the mandatory reserve fund deposits and with Shimoga District Central Co-operative Bank. The sum of Rs. 9,95,560/- was also stated to be business income from credit facilities extended to its members. There is no reason that the income earned by the assessee of interest should be considered as income from other sources. When the assessee has claimed the same as income received from the money deposited by its members in those bank accounts.

9. We find that the issue is squarely covered in favour of the assessee by the decision of the Hon'ble Karnataka High Court in Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/[2015] 230 Taxman 309 (Karnataka)[28-10-2014] where it is held that co-operative society which is carrying on the business of providing credit facilities to its members, earns profits and gains of business by providing credit facilities to its members. The interest income so derived on the capital, if not immediately required to be lent to the members, they cannot keep the said amount idle. If they deposit this amount in bank so as to earn interest, the said interest income is attributable to the profits and gains of the business of providing

credit facilities to its members only. Society is not carrying on any separate business for earning such interest income. The income derived is the amount of profits and gains of business attributable to the activity of carrying on the business of banking or providing credit facilities to its members by a co-operative society and is liable to be deducted from the gross total income under section 80P.

10. Further the Honourable Supreme court also in Mavilayi Service Co-operative Bank Ltd. vs. CIT [123 Taxman 161] held that income derived from transaction with nominal members is also eligible for deduction u/s 80 P of the Act. It is the facts that there is no transaction of the assessee with non-members.
11. Accordingly, we direct the learned Assessing Officer to grant the deduction under Section 80P(2)(a)(i) of the Act to the assessee of the whole of the income attributable to the business of the assessee following the decision of the Hon'ble Karnataka High Court in case of Tumkur Merchants Souharda Credit Co-operative Ltd. vs. ITO [230 Taxman 309]. Further as there is no non-members with whom the assessee has dealt with, the Assessee's income is also eligible for deduction under Section 80P(2)(a)(i) of the Actas per the decision of the Hon'ble Supreme Court in case of Mavilayi Service Co-operative Bank Ltd. vs. CIT [123 Taxman 161].

12. Accordingly appeal of the assessee is allowed.

Order pronounced in the open court on 20<sup>th</sup> May, 2026.

Sd/-  
(PRASHANT MAHARISHI)  
VICE-PRESIDENT

Bangalore,  
Dated, the 20<sup>th</sup> May, 2026.

\*VM\*

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|--------------|------------------------|
| 1. Appellant | 2. Respondent          |
| 3. CIT       | 4. DR, ITAT, Bangalore |
| 5. CIT(A)    |                        |

By order

Assistant Registrar,  
ITAT, Bangalore